

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEA-02 OMB-01

SWF-02 SAM-01 SAJ-01 SCI-06 AEC-11 FPC-01 DRC-01 /200 W

----- 067850

R 171914Z MAY 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2632

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY LUXEMBOURG

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USMISSION NATO BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 07990

E.O. 11652: GDS

TAGS: EFIN, ECON, GW

SUBJECT: ECONOMIC ASPECTS OF GOVERNMENT DECLARATION

REF: BONN 7937

1. SUMMARY: THE GOVERNMENT'S STATEMENT REGARDING  
THE EC AND ITS MORE MODEST DOMESTIC REFORM GOALS  
WERE OF PRIMARY INTEREST. THE STATEMENT LAID MORE  
STRESS ON PRESERVING EXISTING ACHIEVEMENTS IN THE EC,  
I.E., THE COMMON MARKET, AS OPPOSED TO GOALS WHICH  
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STILL REMAIN FOR THE FUTURE. CHANCELLOR SCHMIDT ALSO

STRONGLY EMPHASIZED THAT EACH INDIVIDUAL NATION MUST BE RESPONSIBLE FOR CURING INFLATION AT HOME. AS MIGHT BE EXPECTED, HE INSISTED THAT THE GERMAN ECONOMY IS IN GOOD SHAPE, WITH GERMAN CITIZENS BETTER OFF THAN THEY HAVE EVER BEEN, AND WITH THE LOWEST RATE OF INFLATION IN THE INDUSTRIAL WORLD. THE CHANCELLOR ALSO REVISED PLANS FOR VARIOUS REFORMS. IN PARTICULAR, THE CAPITAL FORMATION SCHEME WILL NOT BE PASSED BY THIS LEGISLATURE AND CORPORATE INCOME TAX REFORM IS NOW PUT OFF UNTIL JANUARY 1, 1977. THE CHANCELLOR ALSO POINTED OUT THAT OTHER REFORMS (THE INDIVIDUAL INCOME TAX AND CHILDREN'S BENEFITS IN PARTICULAR) WILL MEAN THAT PUBLIC SECTOR SPENDING MUST RISE MORE SLOWLY FROM 1975 ONWARD.  
END SUMMARY

2. WORLD ECONOMY AND COMMON MARKET: THE DECLARATION PAYS THE USUAL LIP SERVICE TO FREER TRADE IN A STABLE WORLD ECONOMY, AND LAYS GREAT STRESS ON GERMANY'S DEPENDENCE ON FOREIGN TRADE (EXPORTS ACCOUNT FOR 22 PER CENT OF GROSS NATIONAL PRODUCE IN THE FRG). PROTECTIONISM IS CLASSED AS A "DEAD-END STREET"; GERMANY IS PLEDGED TO SEEK INTENSIFIED COOPERATION IN THE MONETARY FIELD AND TO SEEK FURTHER DEVELOPMENT AND STRENGTHENING OF THE RULES FOR WORLD TRADE UNDER GATT. IN STRESSING THE IMPORTANCE OF THE EC TO GERMANY, THE GOVERNMENT DECLARATION GIVES FAR MORE ATTENTION TO THE CUSTOMS UNION ASPECT RATHER THAN THE BROADER COMMUNITY ASPECT. IT PLACES FAR MORE STRESS ON SUCCESSES IN THE TRADE FIELD WHICH THE COMMUNITY HAS ALREADY ACHIEVED AND LESS ON FUTURE GOALS. FOR EXAMPLE, AFTER EXPRESSING CONCERN AT THE MEASURES TAKEN BY CERTAIN EC MEMBERS RECENTLY, WHICH HE SAYS COULD FORCE THE EUROPEAN PARTNERS INTO ADVERSARY ROLES, CHANCELLOR SCHMIDT CALLS FOR PRESERVATION OF THE COMMUNITY, "ESPECIALLY THE COMMON MARKET." THE DECLARATION REITERATES THAT THE FRG CONSIDERS THE "AMBITIOUS" GOALS SET AT EC SUMMIT CONFERENCES IN 1969 AND 1972 AS STILL VALID, AND SCHMIDT DEVIATED FROM THE PREPARED TEXT HERE TO  
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EMPHASIZE THE WORD "AMBITIOUS".

3. FINALLY, SCHMIDT SAID THAT THE RETURN TO ECONOMIC (READ PRICE) STABILITY CAN AND MUST BE THE RESPONSIBILITY OF THE GOVERNMENT AND PARLIAMENT IN EACH INDIVIDUAL COUNTRY. HELP FROM THE COMMUNITY (AND THUS GERMANY) CAN ONLY BE SUPPLEMENTARY TO INDIVIDUAL EFFORTS.

4. AT A LATER POINT THE DECLARATION STATES THAT THE COMMON AGRICULTURAL POLICY MUST BE RESTORED TO PROPER FUNCTIONING ORDER, WHILE ALSO EMPHASIZING CONSUMER RIGHTS.
5. THE DECLARATION ALSO STATES THE GOVERNMENT'S INTENTION TO CONTINUE TO PROTECT THE DOMESTIC ECONOMY VIA A FLOATING EXCHANG RATE VERSUS THE REST OF THE WORLD, WHILE REITERATING GERMANY'S COMMITMENT TO REMAIN WITHIN THE SMALL SNAKE.
6. THE DOMESTIC ECONOMY: SCHMIDT NOT ONLY INSISTED

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 07990

THAT THE GERMAN CITIZEN IS BETTER OFF THAN EVER BEFORE (AND TWO-THIRDS OF THEM KNOW IT, HE CLAIMED), BUT WARNED THE OPPOSITION AGAINST STIRRING UP ANXIETY WHERE NONE SHOULD EXIST. SCHMIDT CITED OECD STATISTICS WHICH SHOW THAT THE RATE OF INFLATION IN GERMANY (COST OF LIVING) IS THE LOWEST OF ALL 24 NATIONS IN THE OECD, DESPITE THE RECENT EXPLOSION IN COMMODITY PRICES (OIL IS CITED, OF COURSE) WHICH HAVE RAISED IMPORT PRICES 35 PER CENT ABOVE THEIR  
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LEVEL AT THIS TIME LAST YEAR. (THE READER IS WARNED AGAINST USE OF THIS 35 PER CENT FIGURE.) THE DECLARATION ALSO NOTES THAT REAL INCOME ROSE BY 2 SNT IN 1973 AND FORECASTS IT WILL RISE BY 4 PER CENT IN 1975 AFTER INDIVIDUAL INCOME TAX REFORM TAKES EFFECT.

7. SCHMIDT ALSO PLEDGED TO WORK TOWARD THE FOLLOWING ECONOMIC GOALS, IN APPARENT ORDER OF PRIORITY: 1) A HIGH LEVEL OF EMPLOYMENT; 2) PRICE STABILITY; 3) ECONOMIC GROWTH. THIS ATTITUDE IS REINFORCED LATER ON WHEN THE DECLARATION STATES THAT AN ECONOMIC POLICY WILL BE FOLLOWED WHICH, WHILE ASSURING CONTINUED HIGH EMPLOYMENT, RESULTS IN STEP-BY-STEP REDUCTION IN INFLATION.

8. ON THE FISCAL SIDE, THE GOVERNMENT STATES ITS INTENTION TO REMAIN WITHIN THE BUDGET AND SCHMIDT PLEDGED HIMSELF TO "STAND BESIDE" HIS FINANCE MINISTER TO ENSURE THAT AN ANTI-INFLATIONARY POLICY IS SUPPORTED. IN THE LONGER RUN, HOWEVER, THE CHANCELLOR NOTED THAT TAX REFORM PROPOSALS NOW IN PREPARATION WILL MEAN AROUND A DM 10-12 BILLION PER YEAR LESS REVENUE BEGINNING WITH 1975. THIS WILL MEAN THAT EXPENDITURE AT EVERY LEVEL OF GOVERNMENT MUST GROW MORE SLOWLY. IT WILL BE UP TO BUNDESRAT AND BUNDESTAG TO REVISE THEIR EXPECTATIONS IF AN INCREASE IN THE VALUE ADDED TAX, WHICH HE STRONGLY OPPOSED, IS TO BE AVOIDED.

9. REFORM PROPOSALS: SCHMIDT EXPRESSED CONFIDENCE CO-DETERMINATION LAW WOULD BE ENACTED BY JANUARY 1, 1975. THE DECLARATION STATES THAT AN INTER-

MINISTERIAL WORKING GROUP WILL BE CREATED TO PUSH  
WORK AHEAD ON A CAPITAL FORMATION SCHEME  
(VERMOEGENSBILDUNG). EXPECTATIONS HAVE BEEN REVISED,  
HOWEVER, AND SCHMIDT STATED THAT HIS INTENTION NOW  
IS TO PRESENT THE DRAFT LAW DURING THIS LEGISLATIVE  
PERIOD, WHICH WHILE PROBABLY NOT ACTED UPON BY THIS  
LEGISLATURE COULD BE PASSED IN TIME TO BECOME  
EFFECTIVE BY JANUARY 1, 1978. THE CORPORATE INCOME  
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TAX REFORM LAW, PROVIDING FOR A TAX CREDIT SCHEME  
FOR INDIVIDUAL TAX PAYERS, IS NOW TARGETED TO  
BE ENACTED BY THIS LEGISLATURE PRIOR TO THE 1976  
ELECTION AND TO COME INTO FORCE ON JANUARY 1, 1977.  
THE TARGET FOR PERSONAL INCOME TAX REFORM AND THE  
REVISED CHILDREN'S ALLOWANCES REMAINS JANUARY 1, 1975.

10. ENERGY: THE DECLARATION REITERATES THE  
GOVERNMENT'S INTENTION TO REVISE AND UPDATE LAST  
YEAR'S ENERGY PROGRAM. STRESS WILL BE LAID ON  
RESEARCH AND THE EFFORT TO REDUCE THE ECONOMY'S  
DEPENDENCE ON OIL IN FAVOR OF OTHER SOURCES: NATURAL  
GAS, COAL AND NUCLEAR ENERGY. THE GOVERNMENT ALSO  
INTENDS TO CONTINUE TO WORK TOWARD A GELSENBERG-VEBA  
MERGER WITHIN THE CURRENT LEGISLATIVE PERIOD.  
HILLENBRAND

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